

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 1721 - SB 2821

February 21, 2022

SUMMARY OF BILL AS AMENDED (013693): Authorizes local governing bodies, by a two-thirds vote, to prorate tax year 2021 assessments for real personal, commercial, and industrial property and tangible personal property demolished, destroyed, or substantially damaged in a Federal Emergency Management Agency (FEMA) certified disaster occurring between August 20, 2021 and December 31, 2021. Deletes provision on December 31, 2022.

Increases, from \$2,500 to \$3,500, the maximum amount of sales and use tax refund for natural disaster claimants for a federally declared natural disaster that occurred on or about August 21, 2021 in Humphreys County. Establishes that purchases of major appliances, residential furniture, or residential building supplies used in a claimant's secondary residence that was damaged or destroyed as a result of the natural disaster are also eligible for the sales and use tax refund, in addition to those used in the claimant's primary residence.

FISCAL IMPACT OF BILL AS AMENDED:

Increase State Expenditures – \$112,100/FY22-23

Decrease Local Revenue –

\$1,100/Cheatham County/FY22-23/Permissive
\$1,100/Decatur County/FY22-23/Permissive
\$1,100/Dickson County/FY22-23/Permissive
\$1,100/Dyer County/FY22-23/Permissive
\$1,100/Gibson County/FY22-23/Permissive
\$1,200/Lake County/FY22-23/Permissive
\$1,100/Obion County/FY22-23/Permissive
\$1,100/Stewart County/FY22-23/Permissive
\$1,200/Weakley County/FY22-23/Permissive

Assumptions relative to Proration Eligibility:

- On August 23, 2021, FEMA declared the severe storms and flooding occurring in Dickson, Hickman, Houston, and Humphreys Counties on August 21, 2021, a disaster.
- On December 12, 2021, FEMA declared the severe storms, straight-line winds, and tornadoes occurring in Cheatham, Decatur, Dickson, Dyer, Gibson, Lake, Obion, Stewart, and Weakley Counties on December 10-11, a disaster.

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- Pursuant to Tenn. Code Ann. § 67-5-603 and Tenn. Code Ann. § 67-5-606, proration of assessments is authorized for qualifying events occurring to qualifying properties after January 1 and prior to September 1 of the tax year; therefore, the proposed legislation has no fiscal impact relative to the August 21 disaster.
- Any proration of 2021 property taxes by local governing bodies in Cheatham, Decatur, Dickson, Dyer, Gibson, Lake, Obion, Stewart, and Weakley Counties is permissive and dependent on a two-thirds vote by the respective legislative bodies.
- In order to qualify for proration, the qualifying property's replacement or restoration time must exceed 30 days from the date the damage was incurred.
- In jurisdictions voting to prorate property taxes, the county trustee and municipal tax collectors are required to refund the difference in tax resulting from proration for eligible property taxpayers who have already remitted property taxes for tax year 2021.
- Property taxpayers seeking proration must use a form approved by the Director of the Comptroller's Division of Property Assessments. Form creation and processing will be completed within existing resources. Any fiscal impact to the Comptroller of the Treasury's Office is estimated to be not significant.

Assumptions relative to Damaged Properties:

- It is estimated that 100 percent of eligible property taxpayers will apply for proration.
- All proration estimates are calculated for 22 days, from December 10, 2021 through December 31, 2021.
- Based on information provided by the Comptroller of the Treasury, the 22-day proration totals for the following local taxing jurisdictions affected by the December storms are estimated as follows: Dickson County: \$1,062, Lake County: \$1,154, and Weakley County including the cities of Dresden and Greenfield, and unincorporated areas: \$1,180.
- The remaining counties of Cheatham, Decatur, Dyer, Gibson, Obion, and Stewart, did not provide data regarding locally assessed property.
- For the purpose of this analysis, it is assumed that the remaining counties will each have a proration total equaling the average of the totals from Dickson, Lake, and Weakley Counties, or \$1,132 $[(\text{Dickson County } \$1,062 + \text{Lake County } \$1,154 + \text{Weakley County } \$1,180) / 3]$.
- It is estimated that the one-time permissive decrease in local revenue resulting from a proration of property taxes on properties damaged in the December storms will be: Cheatham County: \$1,132, Decatur County: \$1,132, Dickson: \$1,062, Dyer County: \$1,132, Gibson County: \$1,132, Lake County: \$1,154, Obion County: \$1,132, Stewart County: \$1,132, and Weakley County: \$1,180.

Assumptions related to the sales tax refund for natural disaster claimants:

- Pursuant to Tenn. Code Ann. § 67-6-396, any person receiving disaster assistance through FEMA for repair, replacement, or construction of the person's primary residence that was damaged or destroyed as a result of a natural disaster occurring in Tennessee is entitled to a refund equal to the total amount of Tennessee state and local sales and use tax paid by the person on purchases of major appliances, residential

furniture, or residential building supplies used in such primary residence within one year of receiving FEMA assistance in an amount not to exceed \$2,500. All refunds are paid from the state's General Fund and amount of sales and use tax payable to local governments is not to be reduced.

- The proposed legislation increases the maximum refund amount associated with any one residence to \$3,500, and will allow a person to claim an additional refund of sales and use taxes on purchases associated with the person's secondary residence. These provisions will only apply for damages incurred in the August 2021 natural disaster that occurred in Humphreys County.
- According to the Tennessee Emergency Management Agency, as a result of the August 2021 natural disaster, repairs were paid by FEMA for 332 claimants in Humphreys County.
- Based on information provided by the Department of Revenue:
 - Previous natural disaster in Sevier County resulted in an average refund of approximately \$2,850 per claimant, including primary and secondary residences and the increased maximum refund of \$3,500.
 - This is an increase of \$350 (\$2,850 average refund - \$2,500 standard refund) over the \$2,500 refund already allowed under current law.
 - Adjusting for inflation, it can be reasonably assumed that a refund issued today for a primary residence will result in an increase of \$400 over the standard \$2,500 refund.
 - To account for the existence of any secondary residence, it can be reasonably estimated that a refund issued today to a claimant for a primary and secondary residence will result in a total increase of \$450 over the current standard refund.
- The exact number of individuals who would apply and qualify for the sales tax refund is not known, but can be reasonably estimated to be 75 percent of claimants receiving FEMA repair assistance, or 249 (332 claimants x 75%).
- The one-time increase in state expenditures in FY22-23 is estimated to be \$112,050 (\$450 x 249 claimants).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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